



STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

25 Sigourney Street
Hartford CT 06106-5032

IP 2003(34)

INFORMATIONAL PUBLICATION

Business Taxes

Purpose: This publication provides a brief description of certain taxes applicable to companies doing business in Connecticut. It is not an all-inclusive list, but it contains those taxes of interest to most businesses and, where appropriate, identifies the state agencies to contact for further information. For more information about conducting business in Connecticut, see **Informational Publication 2003(28)**, *Getting Started in Business: Understanding Connecticut Taxes*.

Effective Date: Upon issuance.

Registering for Business Taxes

Use **Form REG-1**, *Business Taxes Registration Application*, to register a business for those taxes administered by the Department of Revenue Services (DRS) including: corporation business tax, business entity tax, sales and use taxes, motor vehicle fuels tax, and income tax withholding. See Page 7 for information on obtaining forms and publications. For further information, contact the DRS Taxpayer Services Division at 860-297-5962 (from anywhere) or 1-800-382-9463 (in-state).

Corporation Business Tax

Corporations pay the corporation business tax for the privilege of carrying on business in a corporate capacity in Connecticut. Corporations calculate their tax under two alternative methods, tax measured by net income and the minimum tax, and remit the higher tax. If the tax measured by net income is less than \$250, the corporation pays the minimum tax, which is never less than \$250.

The tax measured by net income

Federal net income is modified by certain additions and subtractions to compute Connecticut net income. Multistate corporations multiply their Connecticut net

income by the appropriate apportionment factor. The Connecticut net income, or apportioned Connecticut net income for multistate corporations, is taxed at 7.5%.

The minimum tax

The Connecticut minimum tax base is:

The average value of issued and outstanding capital stock, surplus, and undivided profits and surplus reserves reduced by:

The average value of any deficit carried on the balance sheet and holdings of stock of private (nongovernmental) corporations including treasury stock.

Multistate corporations multiply their Connecticut minimum tax base by an apportionment fraction that is the average of the intangible personal property and tangible personal property ratios.

The Connecticut minimum tax base, or apportioned Connecticut minimum tax base for multistate corporations, is taxed at a rate of 3.1 mills (\$0.0031) per dollar. The minimum tax cannot be more than \$1,000,000 nor be less than \$250.

Estimated corporation business tax

A corporation whose estimated current year's tax exceeds \$1,000 must make estimated tax payments.

The required annual payment is the lesser of:

1st installment	30% of prior year's tax or 27% of current year's tax.
2nd installment	70% of prior year's tax or 63% of current year's tax.
3rd installment	80% of prior year's tax or 72% of current year's tax.
4th installment	100% of prior year's tax or 90% of current year's tax.

Filing requirements

C corporations

C corporations, and other business entities that elect to be taxed as a corporation, must file **Form CT-1120, Corporation Business Tax Return**, on or before the first day of the month following the due date of the company's corresponding federal income tax return for the income year (April 1 for calendar year filers).

S corporations

S corporations are taxed differently from other corporations. For income years beginning on or after January 1, 2001, S corporations are not subject to the corporation business tax. For federal and Connecticut tax purposes, S corporations are treated as flow-through entities. Consequently, in Connecticut S corporation shareholders who are individuals, estates, or trusts report their pro rata share of S corporation income on **Form CT-1040, Form CT-1040NR/PY, Form CT-1041, or Form CT-G** (a group return).

S corporation shareholders who are residents pay income tax on their pro rata share of the S corporation's separately and nonseparately stated income. S corporation shareholders who are nonresidents pay income tax on their pro rata share of the S corporation's separately and nonseparately stated income to the extent derived from or connected with Connecticut sources.

Additionally, the S corporation must file **Form CT-1120SI, Connecticut S Corporation Information and Composite Income Tax Return**, on or before the fifteenth day of the fourth month after the close of its taxable year. S corporations generally will be subject to the business entity tax.

Corporation business tax credits

Corporation business tax credits are available to new and existing businesses. **Informational Publication 2001(17), Guide to Connecticut Corporation Business Tax Credits**, contains detailed summaries of available credits. To order Informational Publication 2001(17), send a self-addressed 9" x 12" envelope with \$1.75 postage affixed to:

Department of Revenue Services
Mail Unit, Corporation Credit Guide
25 Sigourney Street
Hartford CT 06106-5032

Business Entity Tax

For taxable years beginning on or after January 1, 2002, there is an annual business entity tax (BET) of \$250. For taxable years beginning on or after January 1, 2003, and prior to January 1, 2004, the tax also includes a 20% surtax on the BET. The sum of the BET and the surtax is \$300. The BET applies to the following entities, if required to file an annual report with the Connecticut Secretary of the State:

- S corporation;
- Limited liability partnership (LLP);
- Limited partnership (LP); or
- Limited liability company (LLC), which is, for federal income tax purposes, either treated as a partnership if it has two or more members, or disregarded as an entity separate from its owner, if it has a single member;

See **Special Notice 2002(11), Business Entity Tax**, and **Informational Publication 2003(15), Q & A on Business Entity Tax** for more information.

Sales and Use Taxes

Retail sales or leases of tangible personal property and certain services are subject to sales and use taxes at a 6% rate, except as noted below. The room occupancy tax rate of 12% applies to the occupancy of a room in a hotel or lodging house for a period of thirty consecutive days or less.

Use tax generally applies to taxable tangible personal property or services on which the seller did not impose Connecticut sales tax. A business must report purchases subject to the use tax on **Form OS-114, Sales and Use Tax Return**, for the period in which the purchases are made. If an item purchased in another state already was subject to that state's sales tax, credit for such tax is generally given when computing Connecticut use tax.

Certain services subject to tax

For a complete list of taxable services, refer to Conn. Gen. Stat. §12-407(a)(2) and (37) or contact the DRS Taxpayer Services Division. Although not an exhaustive list, the following are commonly provided taxable services:

- Advertising or public relations services not related to the development of media advertising or cooperative direct mail advertising;
- Business analysis, management, management consulting, and public relations services, excluding any environmental consulting services;
- Cable and satellite television services;
- Computer and data processing services, including but not limited to, charges for on-line access to computer services (but excluding services rendered in connection with the creation, development, hosting or maintenance of all or part of a web site on the World Wide Web and Internet access services) are taxed at 1%;
- Certain contractor services;
- Credit information and reporting;
- Employment agencies and agencies providing personnel services;
- Exterminating services;
- Flight instruction and chartering by a certificated air carrier;
- Furnishing of space for storage of tangible personal property;
- Furniture reupholstering and repair services;
- Health and athletic club services;
- Janitorial services (including the cleaning of homes, offices, and commercial property);
- Landscaping and horticulture services;
- Lobbying or consulting services for the purpose of representing a client's interests in relation to any Connecticut state or local governmental bodies;
- Locksmith services;
- Maintenance services;
- Miscellaneous personal services (U.S. industries 532220, 812191, 812199, or 812990 in the NAICS manual or industry group 719 in the SIC manual), exclusive of services rendered by licensed massage therapists and licensed hypertrichologists;
- Motor vehicle repairs, including any type of repair, painting, or replacement to the body or operating parts of a motor vehicle;
- Painting and lettering services;
- Parking services in a lot with 30 or more spaces, other than metered space, and excluding valet parking at airports and space in certain municipal railroad parking lots;
- Personnel training services when the training service provider is engaged by an employer to provide job-related training to personnel whose primary workplace is located in Connecticut;
- Photographic studio services;
- Piped-in music provided to business or professional establishments;
- Prepaid telephone calling services, including prepaid calling cards, and the recharge of the service;
- Private investigation, protection, patrol work, watchman, and armored car services, exclusive of these services provided by off-duty police officers and firefighters;
- Radio or television repair services;
- Repair services to electrical or electronic devices, including, but not limited to, air conditioning and refrigeration equipment;
- Repair or maintenance services to tangible personal property (other than services to vessels and shoe repair);
- Sales agent services for selling tangible personal property, except for the services of a consignee selling works of art or clothing or the services of an auctioneer;
- Services to existing industrial, commercial, and income-producing real property, including but not limited to management, repair, and renovation services, but excluding voluntary evaluation, prevention, treatment, containment, or removal of hazardous waste or other contaminants of air, water, or soil;
- Stenographic services;
- Storage or mooring of any noncommercial vessel on land or in the water, **except** the nonseasonal (November 1 through April 30) dry or wet storage or mooring of noncommercial vessels;
- Swimming pool cleaning and maintenance services;
- Telecommunications services;
- Telephone answering services;
- Warranty and service contracts for any item of tangible personal property; **and**
- Window cleaning services.

Related companies

Sales of services between the following affiliated business entities are exempt from sales and use taxes: corporations, trusts, estates, partnerships, limited partnerships, limited liability partnerships, limited liability

companies, single member limited liability companies, sole proprietorships, and nonstock corporations. To qualify, the business entities must be affiliated in such a manner that:

- Either business entity in the transaction owns a controlling interest in the other business entity; or
- A controlling interest in each business entity in the transaction is owned by the same person or persons or business entity or business entities.

Note that a business entity cannot purchase services on resale when the services are purchased for resale to another affiliate.

Contractor services

Because this area of tax law is complex, DRS created **Informational Publication 99(19)**, *Building Contractors' Guide to Connecticut Sales and Use Taxes*. You may download this publication from the DRS web site at www.ct.gov/DRS, or to order the publication, send a self-addressed 9" x 12" envelope with \$1.75 in postage to:

Department of Revenue Services
Mail Unit, Building Contractors' Guide
25 Sigourney Street
Hartford CT 06106-5032

Manufacturer's exemptions

Sales and use taxes are imposed on most items purchased by Connecticut manufacturers. However, there are certain exemptions:

- Machinery used directly in the manufacturing production process;
- Repair, replacement, component or enhancement parts for the machinery;
- Materials that become an ingredient or component part of the products to be sold;
- Tools, fuel, and materials that are used directly in an industrial plant in the actual fabrication of finished products to be sold; and
- Calibration services for manufacturing machinery, equipment or instrumentation.

Also, under the Manufacturing Recovery Act, which is available to manufacturers, processors, and fabricators, 50% of the purchase price of materials, tools, fuels, machinery, and equipment is exempt from sales and use taxes.

Informational Publication 99(18), *Sales and Use Taxes Guide for Manufacturers, Fabricators and Processors*, includes information about tax exemptions

and other issues of interest to manufacturers. You may download this publication from the DRS web site at www.ct.gov/DRS, or to order the publication, send a self-addressed 9" x 12" envelope with \$1.98 in postage to:

Department of Revenue Services
Mail Unit, Manufacturers' Guide
25 Sigourney Street
Hartford CT 06106-5032

Filing requirements

Connecticut retailers that sell taxable goods or services must collect sales tax on their sales, except when a properly completed Connecticut *Sales and Use Tax Resale Certificate* or the Uniform Sales and Use Tax Certificate — Multijurisdiction is taken in good faith from the purchaser or the sale qualifies for exemption. Retailers must remit sales and use taxes on a quarterly basis to the state, except where the tax collected by the retailer for the 12-month period ended on the preceding June 30 was more than \$4,000, in which event the tax must be remitted monthly. Annual filing is allowed for businesses whose total annual liability for sales and use taxes is less than \$1,000.

Other exemptions

Certain sales are exempt from tax including, but not limited to, sales of food (other than meals), clothing under \$50, and prescription and certain nonprescription drugs.

Motor Vehicle Fuels Tax

An excise tax is imposed on motor vehicle fuels used to propel motor vehicles on public highways or roads. The tax rate on gasoline is 25¢ per gallon; the rate on gasohol is 24¢ per gallon; and the rate on diesel fuel is 26¢ per gallon.

Motor Carrier Road Tax

A tax is imposed on the use of motor fuels by motor carriers operating qualified motor vehicles in Connecticut. The rate is equivalent to the Connecticut motor vehicle fuels tax rate. A *qualified motor vehicle* is a motor vehicle used, designed, or maintained for transportation of persons or property and:

- Has two axles and a gross vehicle weight or registered gross vehicle weight exceeding 26,000 pounds; or
- Has three or more axles regardless of weight; or

- Is used in combination and the combined gross vehicle weight or registered gross vehicle weight exceeds 26,000 pounds.

International Fuel Tax Agreement (IFTA)

Connecticut is a member of the International Fuel Tax Agreement (IFTA). IFTA is an agreement among jurisdictions (states of the United States and Canadian provinces) to simplify the reporting of the fuel use taxes by interstate carriers. All 48 contiguous states are members of IFTA, as well as 10 Canadian provinces.

Each motor carrier based in Connecticut that operates in at least one other IFTA jurisdiction must obtain a Connecticut IFTA license and decals. For carriers based in another jurisdiction that is also an IFTA member, the IFTA license and decals from that jurisdiction satisfy Connecticut fuel use tax requirements. Qualified motor vehicles based outside Connecticut in a non-IFTA jurisdiction or that operate only in Connecticut must obtain Connecticut motor carrier road tax decals. Call the DRS Registration Unit, **860-297-4753**, to obtain an application.

Income Tax Withholding

An employer is an employer for Connecticut income tax withholding purposes if that employer:

- Maintains an office in Connecticut or is transacting business within Connecticut; **and**
- Is considered an employer for federal income tax withholding purposes.

Employers must withhold Connecticut income tax from wages of resident employees and from nonresident employees who work in Connecticut. In general, when an employer deposits federal income taxes withheld from employee wages, the employer must pay over Connecticut income taxes withheld from employee wages to DRS. Quarterly reconciliations are due on the last day of the month following the end of the calendar quarter. The annual reconciliation for the preceding year is due on the last day of February.

Other State Agencies

Other state or municipal agencies administer the following taxes and fees: corporation franchise tax, unemployment compensation tax, property tax, and motor vehicle fees.

Corporation Franchise Tax: The Office of the Secretary of the State collects a franchise tax from Connecticut corporations. For more information, contact the Office of the Secretary of the State at 860-509-6003 or visit their Web site at: **www.sots.state.ct.us**

Domestic corporations

A domestic corporation must pay a franchise tax to the Secretary of the State at the time of incorporation and at the time of any increase in the number of shares of authorized capital stock as follows:

Number of Shares	Tax Rate
First 10,000 shares	1¢ per share
10,001–100,000 shares	1/2¢ per share
100,001–1,000,000 shares	1/4¢ per share
1,000,000 + shares	1/5¢ per share

The minimum franchise tax is \$150.

There is an additional fee of \$50 for filing the certificate of incorporation. Corporations must file annual reports on or before the last business day of the month in which the anniversary date of incorporation occurs. The filing fee is \$75. The fee for a certified copy of a corporate document is \$25.

Foreign corporations

A corporation organized outside Connecticut may obtain a certificate of authority to transact business in Connecticut by filing an application with the Secretary of the State and appointing an agent to accept service of process. Applications are available from the Secretary of the State and must be accompanied by a filing fee of \$275 and a certificate of good standing from the corporation's state of incorporation. Foreign corporations must file annual reports on or before the last business day of the month in which the anniversary date of the authorization to transact business occurs. The filing fee is \$300.

Unemployment Compensation Tax

The **Department of Labor** administers the unemployment compensation tax. For information and registration forms, contact the Connecticut Department of Labor, Employer Status Unit, at 860-263-6550 or visit their Web site at **www.ctdol.state.ct.us**

Unemployment Compensation Act

Employers engaged in covered activities are subject to the Unemployment Compensation Act (Act) if:

- During a calendar quarter of the current or preceding calendar year, they paid cash wages totaling \$1,500 or more; **or**
- During the current or preceding calendar year, they had one or more employees at any time in each of 20 calendar weeks.

Agricultural employers are subject to the Act if:

- During any calendar quarter of the current or preceding calendar year, they paid cash wages totaling \$20,000 or more; **or**
- During the current or preceding calendar year, they had 10 or more employees at any time in each of 20 calendar weeks.

Domestic employers are subject to the Act if they paid cash wages totaling \$1,000 or more during any calendar quarter of the current or preceding calendar year.

Unemployment Compensation Fund

The Unemployment Compensation Fund is financed through a benefit ratio system. For employers who qualify to be experience-rated (those who have been chargeable with benefits for at least one year ending June 30), taxes are based on:

- The benefit ratio of each employer, which determines the charged tax rate; **and**
- Unemployment compensation fund reserves, which determine a fund solvency tax rate.

These rates are recalculated annually for qualified employers. An employer's charged tax rate is the ratio of charges during the applicable experience period to the taxable payroll for the same period; it can range from 0.5% to 5.4% of taxable payroll. The fund solvency tax rate may increase an employer's total contribution rate depending on the solvency of the unemployment compensation fund. Calculated annually, it applies uniformly to all employers who qualify for experience rating. It can range from 0.0% and 1.4%.

An employer who has not been subject to the Act for a sufficient period of time to be experience-rated pays contributions at a rate that is the higher of 1.0% of taxable wages, or the Connecticut five-year benefit cost rate. An employer's taxable wages consists of the sum of employee's wages not in excess of \$15,000.

Maximum unemployment compensation rate

The maximum unemployment compensation rate is \$411 per week effective October 2002 or later. The rate is revised annually as of the first Sunday in October. The annual increase is limited to \$18 over the previous maximum benefit. However, the maximum benefit cannot exceed 60% of the average weekly wage of manufacturing production and related workers in Connecticut.

Property Tax

The property tax is administered by each Connecticut municipality. For more information on property tax, write to: Intergovernmental Policy Division, Office of Policy and Management, 450 Capitol Avenue, Mail Stop 54 MFS, Hartford, CT 06106-1308. You can also visit the Office of Policy and Management web site at www.opm.state.ct.us Specific information may also be obtained from the city or town assessor where the business is located.

Each company pays an ad valorem property tax to the community in which it has real or personal property. Manufacturing inventories of finished goods and goods in process are exempt, as are mercantile inventories.

Assessment date

October 1 is the annual assessment date. Not later than November 1, each company must file a declaration of its personal property with the local assessor. Personal property and motor vehicles are revalued annually. Real property is revalued every four years. Increases in assessed values of real property resulting from revaluation may be phased in for up to four years at the community's option.

Any municipality with a population in excess of 35,000 may establish a special service district to construct, own, operate, and maintain public improvements, and to provide within the district the services a municipality is authorized to provide, except elementary and secondary education.

Exemptions

Newly acquired manufacturing machinery and equipment (including property used in the production of motion pictures, videos, and sound recordings) may be exempt from the property tax for a five-year period. New commercial motor vehicles used exclusively for the interstate or intrastate transport of freight for hire, may also be exempt for a five-year period. Both

exemptions must be claimed annually. Exemption applications and personal property declaration forms are available from the local assessor.

Connecticut has a free-port law that permits goods shipped in from out-of-state to remain free of local property taxes while stored in a public warehouse not owned by the seller or buyer if the goods remain in their original packages.

Motor Vehicle Registration Fees

Motor vehicle registration is administered by the Department of Motor Vehicles. Driver licenses are renewed every four years for \$43 and commercial driver licenses are renewed every four years for \$90. There is a biennial registration fee of \$75 for private passenger cars and \$83 for passenger cars used for business purposes. Upon renewal, there is an additional \$10 Clean Air Act fee for all classes of motor vehicles. Annual registration fees for commercial motor vehicles are based on the vehicle gross weight as follows:

Weight	Registration Fee
Up to 20,000 lbs.	\$1.16 per 100 lbs. (or fraction of 100 lbs.)
20,001 – 30,000 lbs.	\$1.42 per 100 lbs. (or fraction of 100 lbs.)
30,001 – 73,000 lbs.	\$1.77 per 100 lbs. (or fraction of 100 lbs.)
73,001 – and up	\$1.92 per 100 lbs. (or fraction of 100 lbs.)

Both motorized units (tractors) and trailers must be registered. There are fixed annual fees for saw rigs, spray rigs, and well drillers. Permanently mounted cranes require a fee by gross weight. There is a registration fee per year (not prorated) for *heavy duty vehicles* (55,000 lbs. gross weight and over). Overweight vehicles require a special permit from the Connecticut Department of Transportation.

Specific registration classes exist for taxis, liveries, and buses, each with special requirements and fees.

For more information, contact the Department of Motor Vehicles at 1-800-842-8222, or visit their web site at www.ct.gov/dmv

Effect on Other Documents: This Informational Publication modifies and supersedes **Informational Publication 2001(14), *Business Taxes***, which may no longer be relied upon on or after the issuance date of this publication.

Effect of This Document: An Informational Publication addresses frequently asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (in-state), or
- **860-297-5962** (from anywhere)

TTY, TDD, and Text Telephone users only may transmit anytime by calling 860-297-4911.

Forms and Publications: Forms and publications are available anytime by:

- **Internet:** Preview and download forms and publications from the DRS Web site at www.ct.gov/DRS
 - **DRS TAX-FAX:** Call **860-297-5698** from the handset attached to your fax machine and select from the menu.
 - **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (in-state) and select **Option 2** from a touch-tone phone.
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Paperless Filing Methods (fast, easy, free, and confidential):

- **For business returns:** Use **Fast-File** to file sales and use taxes, business use tax, room occupancy tax, or withholding tax returns over the Internet or telephone. Visit the DRS Web site at www.ct.gov/DRS and click on **File Tax Returns On-Line** or call **860-947-1988**.
 - **For resident income tax returns:** Use **WebFile** to file personal income tax returns over the Internet. Visit the DRS Web site at www.ct.gov/DRS and click on **File Tax Returns On-Line**.
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